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ABSTRACT

This guide identifies selected workplace practices that individual businesses have used to become high performance work organizations. The guide, which is intended for managers, directors, labor leaders, workers, investors, and other individuals interesting in adopting high performance work practices, lays out the basic steps involved in transforming a business into a high performance work organization. The first section, which outlines the skills and information workers need to perform effectively in high performance organizations, pays special attention to the need for training and continuous learning and information sharing. The importance of employee participation, organizational structure, and worker-management partnerships is examined in the second section. Section 3 focuses on compensation linked to performance and skills, employment security, and a supportive work environment. The importance of integrating all of the high performance work organization mentioned into a coordinated organizational strategy rather than just adopting one or two practices is emphasized. Concluding the guide are a 4-page workplace practices checklist and a 47-item list of selected articles, books, studies reports, and other sources of information about high performance work practices. (MN)

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Road to High-Performance Workplaces

A Guide to Better Jobs and Better Business Results

1994

U.S. Department of Labor
Office of the American Workplace

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Road to High-Performance Workplaces

A Guide to Better Jobs and Better Business Results

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About This Guide

A growing number of U.S. companies recognize that today's business environment requires them to be innovative in the way they work. This guide identifies some of the workplace practices businesses use to respond to this challenge. It lays out the basic steps to help create better jobs and better business results—the steps that lead to a high-performance workplace.

The guide is intended for all those on the path to high performance, including managers, directors, labor leaders, workers, and investors. It combines the most common elements of high-performance workplaces with practical examples of companies that have adopted these innovations. It also offers empirical evidence to support the link between workplace practices and corporate productivity.

The move to flexible, high-performance organizations that support fast-paced decision making, few layers of command, and team-based operations can be difficult. As many companies are discovering, however, potential benefits outweigh the risks involved. Success depends on organizational leaders being fully committed to, and involved in, the transformation process. Equally important is the commitment and shared vision provided when other stakeholders, including workers and unions, become partners in the transformation. The guide discusses new roles for each of these participants in high-performance workplaces.

New workplace practices in this guide are grouped according to the **Skills and Information** workers need to perform effectively in high-performance organizations, the **Participation, Organization, and Partnership** required to build a high-performance workplace, and the **Compensation, Security, and Work Environment** needed to sustain continuous improvement and commitment. The concluding section, **Putting It All Together**, combines new workplace practices—with each other and with essential business strategies. This information is supplemented by a **Checklist** of questions organizations can pose as high-performance work practices evolve and a **Reference Guide** highlighting available information about high-performance strategies.

I. Skills and Information

High-performance companies view their workers as valuable assets and make investments accordingly. They change in fundamental ways their approach to worker learning. They switch from training for specific jobs to emphasizing skills that equip workers with the ability to solve problems and to interact with customers, other workers, and other departments. Training is viewed as continuous, with a commitment to life-long learning.

With this kind of knowledge base, workers gain the opportunity to make informed decisions that will affect the service or product they offer. When combined with information sharing, the result is greater job satisfaction and an employee commitment to high quality and increased customer satisfaction.

Training and Continuous Learning

High-performance organizations invest heavily in training and continuous learning, with some companies spending 5 percent or more of payroll to equip workers with the education and the skill base they need to affect products and services. Both formal classroom instruction and work-based training are common. In some firms, workers rotate through a series of jobs to attain multiple skills.

These companies find training investments are most effective when balanced among all workers. As they take on more responsibility for production, quality control, and customer service, workers need new skills in problem solving, team building, and the basics of business operations. Managers need training for their new roles as strategic planners, coaches, teachers, and facilitators.

Preliminary Evidence

Firms that introduced formal training programs after 1983 experienced, by 1986, an increase in productivity 19 percent greater, on average, than firms that did not introduce a training program.

Citation: Bartel, Ann. "Productivity Gains from the Implementation of Employee Training Programs." *Industrial Relations*, forthcoming.

Training is also associated with improved quality of output. In a survey of 157 small (500 or fewer employees) manufacturing firms in Michigan, increased formal training significantly reduced the rates at which products had to be scrapped. For instance, the study's findings suggest that doubling the training per employee for the initial average of 15 hours would result in a 7 percent reduction in scrap.

Holzer, Harry et al. "Are Training Subsidies for Firms Effective? The Michigan Experience." *Industrial and Labor Relations Review,* forthcoming.

Examples: NUMMI and Remmele

At **New United Motor Manufacturing Inc. (NUMMI)** in Fremont, CA, workers receive extensive training in problem-solving skills even before they go on line to build cars. Initial training includes 10 to 15 special projects, which workers must complete successfully. Employees then work in teams of four to six, with most workers rotating among all the tasks on a team. They are responsible for everything from safety and quality to cost. Some skilled workers are cross-trained to take on new functions, such as robotics or plant maintenance.

The NUMMI plant represents an auto industry turnaround: From a problem-stricken plant, NUMMI transformed itself to a high-performance joint General Motors-Toyota-UAW venture. Its work force consisted almost entirely of the same workers. But training and a new company focus improved the work product and the company culture dramatically. Training was particularly important in achieving this success. Workers and union representatives played a crucial role in its design and delivery. Several hundred employees travelled to Japan for 3 weeks of intensive instruction on production-line and interpersonal practices. When they returned to the U.S., those who had been to Japan formed a central core of trainers for newly hired workers. Several union representatives took full-time assignments in NUMMI's Human Resource Department so that they could focus on training and orientation. Every new employee was given 8 days of classroom instruction before moving to on-the-job, production-line training.

While the extensive training required meant a slow manufacturing startup, it proved crucial in achieving top-quality production. In 1992, NUMMI averaged only 83 defects per 100 cars sold. The U.S. industry average at the time was 125 defects per 100 cars, and the average for Asian-made cars was 105.

Remmele is a five-factory, Minnesota-based job shop that machines parts for companies like Ford Motor Company and IBM. It designs automated manufacturing systems as well.

The company's founder recognized 45 years ago the critical importance training would play in his firms's survival and eventual success. As part of the firm's long-term focus, employees are required to take a core curriculum on manufacturing basics such as statistical process control, preventive maintenance, and zero-defect quality principles. They must also take a "train the trainee" course, which teaches them how to learn and how to teach others. This set of courses takes between 90 and 109 hours to complete. In addition, the company offers remedial math and English courses, plus 17 electives to keep workers' skills up to date or help them acquire new ones. The company also pays tuition for employees who take courses at local colleges or universities.

All of this is provided to a work force of 460 employees, a work force that has helped increase revenues—from $10 million to $70 million since 1977.

Checklist Questions

- ✓ Do investments in training and employee development reflect a higher proportion of payroll than competitors?
- ✓ Are there programs to support continuous learning (job rotation and cross-functional team training, for instance)?
- ✓ Are training expenditures balanced among the company's entire work force?
- ✓ How effective are training programs? How is effectiveness measured?

Information Sharing

High-performance companies find across-the-board information sharing critical to their success. They provide financial and operating data about the company as a whole and employ new technologies (e-mail, groupware, networks) to move information across the organization, giving workers the knowledge they need to act quickly.

What kind of information do these companies communicate? Strategic plans, organizational priorities, budget constraints, operating results by business unit, competitors' relative performance, and plans for new technology are among the types of information shared. For this open-book strategy to be effective, however, workers need training in how to interpret and apply pertinent data.

To be truly successful, information must flow throughout the organization. Workers' ideas and knowledge are conveyed to all levels of the company, and the organization is fully responsive. In companies where this kind of internal communication system is in place, productivity, quality, and customer service improve.

Preliminary Evidence

Information sharing is most frequently used in conjunction with other practices, like teamwork and increased training. Since it is combined with other elements of a high-performance workplace, there is little available evidence on this issue alone. In a representative study, however, return on investment and return on sales were positively correlated with innovative human resource practices, including information sharing, in the year these practices were observed and in each of 5 subsequent years.

Citation: Denison, Daniel. *Corporate Culture and Organizational Effectiveness.* New York: John Wiley and Sons, 1990.

Example: Springfield Remanufacturing Corporation

Workers at **Springfield Remanufacturing** in Springfield, MO, formerly a subsidiary of International Harvester, saved the ailing plant and their jobs by purchasing the division through an employee buyout. To get the new, debt-ridden company off the ground, the CEO made sure that all 119 employees received quarterly reports and training in how to read and understand financial information. As workers began to realize how the business worked, they saw ways in which they could have a direct impact on product quality and on profits. As a result, sales and service to the customer at this engine remanufacturing plant have improved dramatically. So have earnings. According to the *Wall Street Journal*, in December of 1993 on a pre-split basis (the stock had split three times), each share was valued at $18.60, up from 10 cents when the buyout occurred. The employees' stock fund has climbed to $5.5 million from $6,000 in the same period. Revenues climbed from about $18 million in 1983 to $73 million in 1992.

Checklist Questions

- ✓ Do all workers receive information on operating results, financial goals, and organizational performance? How?
- ✓ How are employees trained to apply this information?
- ✓ Are there multiple mechanisms by which internal communication occurs so that information flows up, down, and across the organization?

II. Participation, Organization, and Partnership

High-performance firms recognize that workers are often the ones closest to the customer. They also may have the most knowledge and information about the product or service, and they are in a position to make a significant impact on quality and efficiency. To encourage participation, high-performance companies flatten organizational structures, push responsibility down to teams of workers, and seek input on a wide range of day-to-day decisions affecting work and production.

In some workplaces, labor-management conflicts that impede progress give way to partnerships and cooperation. Workers and unions have a real voice in company operations and embrace the company's quest for excellence.

Results accrue across the organization. Employees have greater autonomy; their compensation is linked to productivity improvements; and they have a heightened sense of commitment. The company is more readily able to respond to customer demands and to changes in market conditions.

Employee Participation

One way in which high-performance organizations tap into the knowledge of their employees is by encouraging the adoption of new roles. Workers become problem solvers, self-managers, and entrepreneurs. Concurrent with increased participation is the decision to seek worker input in the day-to-day decision making of the firm.

A number of innovative structures and programs, ranging from consultative committees (quality circles) to self-directed work teams, strengthen these new roles and responsibilities. The effectiveness of programs increases as employees receive more responsibility for designing and implementing changes and improvements.

Highly successful companies avoid program failure by assembling employees into teams that perform entire processes—like product assembly—rather than having a worker repeat one task over and over. In many cases, teams of workers have authority usually reserved for managers: They hire and fire; they plan work flows and design or adopt more efficient production methods; and they ensure high levels of safety and quality.

Preliminary Evidence

In general, studies find that employee participation is more effective when workers are encouraged to make suggestions and have the authority to implement workplace improvements. Moreover, the evidence suggests that integration of

worker participation with supportive human resource policies has a greater impact on productivity.

A review of 29 studies of conventional firms found that employee participation was associated with positive effects on productivity in 14 studies and negative effects in only two studies—while the remaining 13 studies had mixed results. The authors concluded that the degree of participation was a significant determinant of productivity. Participation was more likely to have a positive long-term effect when it involved substantive decision-making rights rather than purely consultative arrangements.

Citation: Levine, David and Laura D'Andrea Tyson. "Participation, Productivity, and the Firm's Environment" in *Paying for Productivity,* ed. by Alan Blinder. Washington: The Brookings Institution, 1990. pp. 183-235.

Example: Corning Industries

To improve service at **Corning,** workers in the Information Systems (IS) service first had to view their jobs not as a corporate staff function but as an internal customer service competing with outside providers. To improve customer satisfaction, 40 to 50 percent of Corning's IS staff organized into self-governing work teams that now have the authority to make major decisions without being hampered by a chain of command. Team members make hiring and firing decisions, estimate budgets, suggest merit increases, and improve training procedures. The company has experienced measurable, continuous improvement in service quality, error reduction, operating costs, and employee satisfaction. The company's next step is to change the role of top managers to that of mentor, advisor, consultant, and lead spokespersons.

Checklist Questions

- ✓ Are workers actively involved in continuously improving their work process and redefining their jobs?
- ✓ Can workers rapidly modify their work processes to correct quality, production, safety, or other problems?
- ✓ Are workers actively involved in problem solving, selecting new technology, modifying the product or service provided, and meeting with customers?
- ✓ When individuals or teams make suggestions, do they always receive feedback about their suggestions?

Organizational Structure

High-performance firms build participation and empowerment into their organizational structure, both by pushing decision making to the lowest levels of the firm and by breaking down barriers across departments through the use of cross-functional teams. Companies that streamline cumbersome processes and flatten levels of hierarchy often find they are better able to respond to changes in market conditions and technologies.

Firms also find that by organizing work across traditional boundaries, they are able to produce better products and services more efficiently and with fewer defects and design flaws. For instance, some companies assemble teams consisting of designers, engineers, marketing, and production personnel to design new products and identify potential problems typically not found until later in the process.

Cross-functional teams also allow workers to better understand the entire production process and to see first hand how their decisions affect the firm's overall performance. Teamwork eliminates the problem of "handing off" responsibility for projects from one department to another. Instead, teams gain a shared ownership of the project's efficiency and success.

Preliminary Evidence

In a MIT study comparing automobile plants with similar technology, plants that used flexible production systems (including extensive training, contingent compensation, cross-functional work teams, problem-solving groups, and decentralized responsibility for quality control) manufactured vehicles in an average of 22 hours with 0.5 defects per vehicle. In contrast, more traditional plants took 30 hours and had 0.8 defects per vehicle.

Citation: MacDuffie, John Paul. *Human Resource Bundles and Manufacturing Performance*. Mimeograph, Wharton School, University of Pennsylvania. June 1993.

Examples: Edy's Grand Ice Cream and Chaparral Steel

At **Edy's Grand Ice Cream** in Fort Wayne, IN, the problem was never the product but a lack of understanding by workers about how their decisions affected the bottom line. In 1990, the 137-employee company decided on an organizational overhaul. Today, teams of workers and managers (both now called associates) understand, and are held accountable for, short-term, bottom-line business results. Cross-functional teams are aligned by business unit, with a typical team being responsible for everything from quality, individual business goals, internal scheduling and discipline, to training, hiring, pay scales, and career development.

The new system is among the factors contributing to a 67 percent reduction in cycle time, a 66 percent reduction in inventory, a 57 percent improvement in productivity, and an increase in unit sales volume of 830 percent.

Chaparral Steel, a joint venture between Texas Industries, Inc., and Co-Steel, Inc., was created in 1973 to produce a wide range of steel products at low cost. The company started with an organizational structure consisting of four layers of management. Decision-making authority was placed where it would be most effective, and traditional job barriers were eliminated. Today, all 935 employees are considered part of the sales department and handle customer complaints. The traditional sales functions of billing, credit, and shipping are handled in one customer service center, which is easily accessible to all employees.

Chaparral's strategy includes a compulsory annual educational leave program that requires employees to visit customers, premier companies, and universities worldwide to learn new processes and technologies. As a result, Chaparral's production employees were able to produce and test a new casting technique that drastically cut costs and cycle time. The company has achieved the fastest per-ton production time in the world. Operating with such efficiency, Chaparral was able to invest $65.4 million in capital expenditures and repay $58.4 million of debt over a 3-year period, without issuing additional debt.

Checklist Questions

- ✓ Has the organization made any efforts to reduce layers of management recently? Why or why not?
- ✓ Are most workers organized into work teams with substantial team autonomy?
- ✓ Are there cross-functional teams and other mechanisms to increase innovation across organizational boundaries?

Worker-Management Partnerships

To be truly effective, high-performance companies are working to end confrontational relationships between workers and managers. Instead, they seek partnerships with workers and unions, and they depend on new levels of mutual trust and respect. The focus becomes joint accountability, responsibility, and decision making on issues traditionally decided solely by management.

Together, workers, unions leaders, and managers develop common mission and goals statements instead of separate agendas. They recognize that the health of the company is important to the entire work force, and they pursue joint planning and problem solving at all levels.

In unionized firms, labor representatives become an integral part of the decision-making process. At Saturn Corporation, for instance, a union representative partners with a Saturn manager at each managerial and staff level. While this kind of arrangement is not yet the norm, in substantial numbers of workplaces there are joint worker-management committees to deal with issues like training, safety, scheduling, quality assurance, and hiring decisions. In addition, high-performance companies use tools like conflict resolution, interest-based problem solving (where the parties search for mutual gains), consensus decision making, and other strategies to assure that partnerships work.

In some innovative cases, internal governance systems change substantially, reflecting commitments based on trust, rather than power or rights. Lengthy collective bargaining agreements are trimmed to short compacts that assign new roles and responsibilities to both parties.

Preliminary Evidence

Studies find that cooperative labor-management relations help workplaces run more effectively. One study compared workplaces with a low frequency of conflict, quick conflict resolution, substantial worker autonomy, frequent feedback, and frequent worker-initiated changes with other workplaces experiencing few of these innovations. On average, workplaces with innovative relationships had 75 percent fewer worker hours lost to scrap, 42 percent fewer defects per worker, and 17 percent higher labor productivity.

Citation: Cutcher-Gershenfeld, Joel. "The Impact on Economic Performance of a Transformation in Workplace Relations." *Industrial and Labor Relations Review* 44:2. January 1991. pp. 241-260.

Example: AT&T and CWA/IBEW

Beginning in the early 1980's, **AT&T** and the two unions representing its employees, the **Communications Workers of America (CWA)** and the **International Brotherhood of Electrical Workers (IBEW)**, reassessed their relationships in light of changing economic forces. The result was the formation of Quality of Work Life (QWL) programs, the first steps to employee participation within AT&T workplaces.

In 1992, joint efforts culminated in all three parties negotiating a ground-breaking agreement, termed the Workplace of the Future (WPOF). The company and the unions are committed to working together to change the way the parties interact and to enhance employee participation in the business—while simultaneously improving product and service quality. The WPOF structure provides for: union officers and AT&T managers to jointly identify innovative approaches to managing change; Planning Councils that involve unions in key business decisions; a joint Constructive Relationship Council that reviews programs and pilots established under contractual agreements; and a Human Resources Board that allows all parties a voice on an array of long-term, worldwide strategic issues affecting workers and the company. By the end of 1994, about 90 percent of AT&T's union-represented employees will be working in organizations with joint planning councils.

Checklist Questions

- ✓ Are workers and their representatives partners in decision making on a range of issues traditionally decided solely by managers (for example, new technology, quality, and safety)?
- ✓ If the company is unionized, has the union-management relationship moved toward joint participation and decision making? Is collective bargaining based on interest-based techniques and cooperative problem solving?
- ✓ Have the company and the union engaged in innovative collective bargaining arrangements?

III. Compensation, Security, and Work Environment

In a decentralized, high-performance work arena, companies use a variety of systems to recognize performance and skill attainment, establish an employee stake in the enterprise, and accommodate diverse work force needs. Typically, compensation systems link pay to both individual and organizational performance. Firms provide supportive and safe work environments that attract and retain qualified workers. They invest in employment security.

Compensation Linked to Performance and Skills

High-performance companies gain long-term worker commitment by creating compensation systems tying pay to individual, team, and corporate performance. Such companies also seek to make executives more responsive to shareholder concerns by linking executive compensation to longer term corporate goals. Gainsharing, employee stock ownership, profit sharing, team-based pay, and skill-based pay are some of the systems companies use to reward workers. Skill-based pay (rewarding workers for new skills acquired), for instance, encourages continuous learning. Profit sharing allows workers to see the connection between their efforts and the company's bottom line. Team-based pay (rewarding individuals based on a team's performance) gives individuals a stake in promoting the success of the team or project.

As with other high-performance techniques, incentive-based compensation systems work most effectively when coupled with programs that give workers the authority, responsibility, and involvement to affect company performance.

Preliminary Evidence

In a 1994 review of 27 formal econometric studies, the relationship between productivity and compensation linked to performance was found to be consistently positive. The use of profit sharing was generally associated with 3.5 to 5 percent higher productivity, measured through value added or sales per employee. The productivity increase for small and mid-sized firms was over 11 percent.

Citation: Kruse, Douglas. *Profit Sharing: Does It Make A Difference?* Kalamazoo: Upjohn Institute, 1994.

Example: Cin-Made Corporation

In 1985, **Cin-Made** and the United Paperworkers International Union instituted profit-sharing and pay-for-knowledge systems in the small, Cincinnati-based packaging company. Contract wages were locked at 1984 levels, and a merit increase system was instituted to reward employees for attaining additional skill

levels. Eighteen percent of pre-tax operating profits were distributed to union members. Bonuses were allocated based on hours worked. Over time, the fixed wage costs have fallen as a percent of payroll. Cin-Made's average profit-sharing bonus for the last 3 years has been 36 percent of base wages. Sales have increased from $41,000 per employee in 1985 to $103,000 per employee in 1992.

Checklist Questions

- ✓ Does the incentive system incorporate new ways of rewarding workers?
- ✓ Do individual workers or work teams receive financial rewards when they improve the product, the work process, or when they make other improvements?
- ✓ In what ways is individual compensation tied to both individual and corporate performance?
- ✓ Is executive pay tied to corporate (or business unit) performance?

Employment Security

The nation's changing economy has redefined the traditional notion of life-long employment within a company. Downsizing has occurred at a record pace in recent years as more and more companies adopt cost-cutting strategies. Furthermore, laid-off workers are less likely than ever before to be rehired by the same company.

Several studies show that downsizing often does not produce the results that companies expect. In fact, it often leads to lower productivity and profitability. Downsizing also can have an adverse effect on the morale and productivity of surviving workers. The threat of layoffs inevitably reduces a worker's incentive to suggest improvements and new ways of doing things, for fear that he or she will "innovate" themselves out of a job.

Since high-performance companies consider workers as one of their key investments, they view layoffs as an option of last resort, offering instead an explicit commitment to employment security. Some firms adopt no-layoff policies; others send employees for training during "slow" periods or redeploy workers to other jobs within the company. Still others turn to employee ownership as a way to avoid job losses.

High-performance companies also respond to business downturns with various employment arrangements, including part-time, contract, temporary full time, and

work sharing. When companies support employment security policies, workers reciprocate with greater flexibility and commitment.

In today's ever-changing business environment, high levels of training and skill development create another form of employment security for workers. Advanced skills make workers more valuable to the company and less likely to be laid off. If layoffs do occur, however, a broad skill base makes it easier to find new work quickly.

When high-performance companies cannot avoid layoffs, they provide employees with advance notice, severance pay, and outplacement services. The creation of special funds to supplement unemployment compensation and one-time financial settlements reflecting tenure are also common.

Preliminary Evidence

A 1991 study found that job security policies lowered production costs by avoiding layoff and rehiring expenses. It also found that job security created a more motivated, flexible, and loyal work force, who then contributed significantly to increased productivity.

Atchison, T.J. "The Employment Relationship: Un-tied or Re-tied?" *The Executive,* November 1991. pp. 52-62.

In a 1993 survey, fewer than half of the organizations that have downsized since 1988 increased operating profits, and only a third say that worker productivity has increased.

Citation: American Management Association Research Reports. *AMA Survey on Downsizing and Assistance to Displaced Workers,* ed. by Eric Rolfe Greenberg. American Management Association, 1993.

Examples: NYNEX and Rhino Foods, Inc.

NYNEX Corporation, the regional telephone company serving New York and New England, negotiated a new contract with the Communications Workers of America nearly 2 years before the old one was to expire. The new contract was a response to the company's need to eliminate about 8,000 jobs as part of an overall 16,500-job cutback. They also wanted to upgrade the skills of remaining workers. Under provisions of the agreement, NYNEX will offer early retirement incentives that allow extra credit for age and years of service, supplemental pension benefits until age 62, and retention of full health care coverage.

For the remaining, and presumably younger, NYNEX workers, the new contract establishes a 2-year associate degree in telecommunications technology from the State University of New York. Employees will work 4 days a week, go to school the fifth day, and will receive 5 days' pay while they are enrolled in class. Upon degree completion, they will receive a "super tech" wage differential above the base wage rates in the contract.

By effectively creating a 4-day work week for much of its work force, NYNEX also will slow the pace of job cuts, retaining enough extra people to cover the 20 percent reduction in the work week.

The associate degree will be the new standard for prospective hires at NYNEX. As the company eliminates job classifications and as technology changes, workers will need a number of different job skills, all requiring more technical expertise. In an industry constantly redefining itself, the long-term goal of company and CWA contract negotiators is to upgrade workers' education levels while providing them with job security.

Rhino Foods, a 55-employee specialty dessert manufacturer in Burlington, VT, offers another example of job security. In the Spring of 1993, efficiency improvements, resulting in part from the company's employee driven productivity program plus an unexpected drop in orders, threatened to displace workers. Shunning layoffs as an answer, the company president brought the issue to the whole company and asked for volunteers to help find solutions. Twenty-six workers developed a list of 10 possible strategies. The top solution was a temporary employee exchange program between Rhino and other companies with a short-term need for employees. As a result, Rhino sent workers to Ben and Jerry's and a local gardening supply company as "contract employees." When they returned to Rhino a month later, workers had new skills, valuable work experience, and a stronger commitment to the company—a commitment now shared by the entire Rhino work force.

Checklist Questions

- ✓ Are there comprehensive employment planning strategies and policies to minimize or avoid laying off workers?
- ✓ If layoffs have occurred in recent years, does the organization actively help laid-off workers find new jobs? How?
- ✓ Is there a stated policy that workers will not suffer adverse effects from suggestions that result in productivity gains?

Supportive Work Environment

High-performance firms recognize the importance of safe and supportive work environments to the productivity and commitment of its work force. These organizations often take the lead in adopting policies that support a balance between work and family life.

In today's tight economic environment, companies initiating family-supportive and other quality-of-life policies gain a competitive advantage by attracting and retaining a more talented, committed, and productive pool of workers. These firms typically adopt policies and programs to promote fitness, health, and safety. They initiate flexible work hours and days, make accommodations for disabled employees, and provide for child care. Other worker commitments may include the elimination of "glass-ceiling" barriers for women and minorities and implementation of antidiscrimination policies and practices.

Preliminary Evidence

A 1993 study of family-supportive policies at Johnson & Johnson compares the difference in attitudes of supervisors and employees once the firm initiated these policies. The study found an increase in managers' supportive attitudes and a positive impact on most aspects of productivity.

Families and Work Institute, *An Evaluation of Johnson & Johnson's Work-Family Initiative,* 1993.

A survey of 60 Fortune 100 companies, focusing on the period from 1966 to 1981, found that where employees perceived a high level of company concern with employee welfare and work conditions, the company tended to show a higher profitability, measured by the average return on assets over 5 years, than companies where employees did not perceive such concern.

Hansen, Gary S. and Birger Wernerfelt. Determinants of Firm Performance: Relative Importance of Economic and Organizational Factors. *Strategic Journal of Management.* Vol. 10, 1989. pp. 399-411.

Example: Fel-Pro, Inc.

At **Fel-Pro,** a family-owned manufacturer of automotive sealing products in the Chicago area, the company prides itself on its dual commitment to quality and to family. Although the company engages in many high-performance practices, including employee involvement, quality training, team problem solving, and a continuous improvement suggestion system, Fel-Pro has gained national recognition for generous employee benefit programs and its belief that these programs are a major reason for the company's success.

Fel-Pro's work and family benefits include: on-site child care, an elder-care resource and referral service, a sick-child care and adult emergency-care service, subsidized tutoring, college scholarships for employees' children, counseling services, a health/fitness program, a weight loss program, and drug and alcohol treatment programs. The cost of Fel-Pro's benefits package is approximately $700 per employee each year.

A recent study by the University of Chicago showed that the Fel-Pro workers making the most use of company-provided benefits also were among the most productive and committed workers.

Checklist Questions

- ✓ Does the company attract and retain a talented work force? What is the annual turnover rate? Why do people leave?
- ✓ Are there policies and programs in place to encourage better employee morale and greater work-force commitments? What practices are in place to ensure that all problems with morale are promptly and systematically addressed?
- ✓ Are employees actively involved in designing and implementing health and safety policies and programs?
- ✓ Are accident rates in this organization below the industry average?
- ✓ Are family-supportive policies, such as flexible work schedules, child care, and/or elder care, in place?
- ✓ Does the organization actively hire, train, retain, and promote a diverse work force?

IV. Putting It All Together

In successful companies, high-performance workplace practices become part of a coordinated organizational strategy. They are fundamentally integrated into the way a firm does business. Simply implementing one practice—a new training program, for example—without adopting better information sharing, a flatter organization, and a new compensation system, is unlikely to provide the powerful results possible using an integrated approach. Each workplace practice complements and supports others. They are most effective when implemented as part of systemic workplace change.

High-performance firms not only "bundle" workplace practices, but take integration one step further. They combine workplace practices with other standard business priorities, like quality programs, customer service, R & D, product development, new technologies, and marketing. Companies that practice total integration realize that workers are often in the best position to improve customer service and product quality. Likewise, these firms involve workers and unions in decisions about which technologies to buy or design. Rather than simply replacing workers with new machines, they provide employees with the training they need to use, manage, and modify new technologies. In short, companies that view these principles as part of a system not only achieve greater gains in profitability, quality, or customer satisfaction, but increase employee commitment as well.

Preliminary Evidence

A detailed study of the steel industry found that finishing lines were more productive and produced higher quality results when there was a work system including such practices as problem-solving teams, gain sharing, training, and employment security. Finishing lines using these innovative work systems ran as scheduled 98 percent of the time; lines that used two or fewer of these practices ran as scheduled only 88 percent of the time. Although the specific work practices were individually correlated with higher productivity when examined in isolation, introduction of any single practice without a change in the overall system had no significant effect on productivity.

Citation: Ichniowski, Casey, Kathryn Shaw, and Giovanna Prennushi. *The Effects of Human Resource Management Practices on Productivity.* Mimeograph, Columbia University, June 10, 1993.

While some corporations may excel at one specialized area of policy, outstanding firms are likely to excel across a wide range of management practices. In correlating the results of *Fortune* Magazine's annual survey on corporate reputations, a 1994 study found that companies highly regarded for their employee practices are also highly regarded with respect to their other critical practices, including the quality of management, quality of products, and ability to innovate. The study

further concluded that companies with well-respected employee practices scored highest on critical measures of long-term corporate performance, including the utilization of capital and total returns to investors.

Citation: Gordon Group, Inc. *High-Performance Workplaces: Implications for Investment Research and Active Investing Strategies.* Report to the California Public Employees' Retirement System, May 30, 1994.

Example: Southwest Airlines

Southwest Airlines attributes much of its success to its corporate culture. It credits its people and supportive work climate as major factors in achieving high levels of customer service, cost control, and efficiency. This strategy has made Southwest a profit leader in the airline industry.

Technical training for all new employees lasts anywhere from 2 to 6 weeks, depending on the department. Southwest pays for all new-hire training and guarantees employment at the completion of training. Every employee at Southwest (including pilots) is required each year to take a course in customer care. A number of specialized courses are offered to employees and managers through Southwest's "University for People." These include courses on team building, performance appraisal, stress management, safety, and career development. The "university" also has a "new-hire celebration," which is a one-day course on the history, culture, and workplace practices at the company. A half dozen courses in leadership development and a course on understanding financial terms for nonfinancial people are also offered.

Southwest had the first profit-sharing plan in the industry. It provides its employees with information on company financial and operating results through avenues such as company newsletters, weekly updates, and quarterly news videos. Employees are involved in decision making through numerous committees, including joint worker-management committees, which make decisions on a variety of issues ranging from redesign of benefit plans to new uniform selection.

The company is noted for its cooperative labor-management relations. It has no formal labor relations department; labor representatives work directly through departmental vice presidents. The company has been referred to by some union members as a blueprint of a model employer. Teamwork with its unions has promoted a work environment free of rigid work rules. Southwest employees are able to turn around a plane at the gate in an average of 15 to 20 minutes, compared to an hour average for most major carriers.

Southwest's integrated strategy has paid off. For the past 2 years, the company has captured the Department of Transportation's "triple crown" as the carrier with

the most on-time flights, best baggage handling, and highest customer satisfaction. Annual turnover is just 3 to 4 percent, and the company has been recognized as one of the 10 best companies to work for in America. Southwest promotes a high level of safety both for its employees and its passengers and is the only airline that has never had a major accident.

The company's high-performance work practices have paid off in profits as well. For the period between 1972 and 1992, its stock prices have had the highest percentage returns for all stocks (21,775 percent). It is the only American airline to post an operating profit in 1992, and it has been the industry leader in net income for the past 3 years.

Checklist Questions

- ✓ Does the company fully integrate its human resource policies and workplace practices with other essential business strategies?
- ✓ Are quality and continuous improvement efforts meshed with training, work organization, employee involvement, and alternative compensation programs?
- ✓ Are workers involved in the design and purchase of new technologies? Do they have the opportunity to regularly modify the technologies they use (for example, by modifying the program of a machine tool, or writing macros in a word processor)? Do employees receive adequate training to use new technologies effectively?

Workplace Practices Checklist

While the following checklist is not a definitive assessment tool, it can be used by anyone in an organization to evaluate how closely its work practices model those of the high-performance firms described in this guide.

I. Skills and Information

Responses

Training and Continuous Learning

- ✓ Do investments in training and employee development reflect a higher proportion of payroll than competitors?
- ✓ Are there programs to support continuous learning (job rotation and cross-functional team training, for instance)?
- ✓ Are training expenditures balanced among the company's entire work force?
- ✓ How effective are training programs? How is effectiveness measured?

Information Sharing

- ✓ Do all workers receive information on operating results, financial goals, and organizational performance? How?
- ✓ How are employees trained to apply this information?
- ✓ Are there multiple mechanisms by which internal communication occurs so that information flows up, down, and across the organization?

II. Participation, Organization, and Partnership

Employee Participation

- ✓ Are workers actively involved in continuously improving their work process and redefining their jobs?

- ✓ Can workers rapidly modify their work processes to correct quality, safety, or other problems?
- ✓ Are they actively involved in problem solving, selecting new technology, modifying the product or service provided, and meeting with customers?
- ✓ When individuals or teams make suggestions, do they always receive feedback about their suggestions?

Organizational Structure

- ✓ Has the organization made any efforts to reduce layers of management recently? Why or why not?
- ✓ Are most workers organized into work teams with substantial autonomy?
- ✓ Are there cross-functional teams and other mechanisms to share innovative ideas across organizational boundaries?

Worker-Management Partnerships

- ✓ Are workers and their representatives partners in decision making on a range of issues traditionally decided solely by managers (for example, new technology, quality, and safety)?
- ✓ If the company is unionized, has the union-management relationship moved toward joint participation and decision making? Is collective bargaining based on interest-based techniques and cooperative problem solving?
- ✓ Have the company and the union engaged in innovative collective bargaining arrangements?

Responses

III. Compensation, Security, and Work Environment

Responses

Compensation Linked to Performance and Skills

- ✓ Does the incentive system incorporate new ways of rewarding workers?
- ✓ Do individual workers or work teams receive financial rewards when they improve the product, the work process, or make other improvements?
- ✓ Is individual compensation tied to both individual and corporate performance?
- ✓ Is executive pay tied to corporate (or business unit) performance?

Employment Security

- ✓ Are there comprehensive employment planning strategies and policies to minimize or avoid laying off workers?
- ✓ If layoffs have occurred in recent years, does the organization actively help laid-off workers to find new jobs? How?
- ✓ Is there a stated policy that workers will not suffer adverse effects from suggestions that result in productivity gains?

Supportive Work Environment

- ✓ Does the company attract and retain a talented work force? What is the annual turnover rate? Why do people leave?
- ✓ Are there policies and programs in place tc encourage better employee morale and greater work-force commitments? What practices are in place to ensure that all problems with morale are promptly and systematically addressed?

✓ Are employees actively involved in designing and implementing health and safety policies and programs?

✓ Are accident rates in this organization below the industry average?

✓ Are family-supportive policies, such as flexible work schedules, child care, and/or elder care, in place?

✓ Does the organization actively hire, train, retain, and promote a diverse work force?

IV. Putting It All Together

✓ Does the company fully integrate its human resource policies and workplace practices with other essential business strategies?

✓ Are quality and continuous improvement efforts meshed with training, work organization, employee involvement, and alternative compensation programs?

✓ Are workers involved in the design and purchase of new technologies? Do they have the opportunity to regularly modify the technologies they use (for example, by modifying the program of a machine tool, or writing macros in a word processor)? Do employees receive adequate training to use new technologies effectively?

Responses

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